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天安中國投資有限公司

TIAN AN CHINA INVESTMENTS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 28)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2018

The board of directors (“Board”) of Tian An China Investments Company Limited (“Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the six months ended 30th June, 2018 with the comparative figures for the corresponding period in 2017 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30th June, 2018

		(Unaudited)	
		Six months ended 30th June,	
		2018	2017
	Notes	HK\$'000	HK\$'000
Revenue	(4)	2,355,685	504,614
Cost of sales		<u>(1,327,790)</u>	<u>(212,874)</u>
Gross profit		1,027,895	291,740
Other income and gains	(5)	134,096	68,402
Marketing and distribution expenses		(28,451)	(49,894)
Administrative expenses		(145,195)	(176,102)
Other operating expenses		(14,069)	(2,000)
Net decrease in fair value of held-for-trading investments		–	(13,382)
Net decrease in fair value of financial assets at fair value through profit or loss		(25,064)	–
Fair value gain on transfer of inventories of completed properties to investment properties		139,295	39,541
Increase in fair value of investment properties		107,261	43,981
Amortisation of properties for development		(14,014)	(21,285)
Gain on disposal of a subsidiary	(6)	–	1,633,977
Finance costs		(82,049)	(71,977)
Share of profit of associates		46,382	64,925
Share of profit of joint ventures		<u>160,529</u>	<u>102,851</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)*For the six months ended 30th June, 2018*

		(Unaudited)	
		Six months ended 30th June,	
		2018	2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax		1,306,616	1,910,777
Taxation	(7)	(454,593)	(213,764)
Profit for the period	(8)	852,023	1,697,013
Profit for the period attributable to:			
Owners of the Company		836,929	1,671,086
Non-controlling interests		15,094	25,927
		852,023	1,697,013
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	(9)		
Basic		55.54	110.91

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2018

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<u>852,023</u>	<u>1,697,013</u>
Other comprehensive (expense) income		
Items that will not be reclassified to profit or loss:		
Exchange differences arising on translation to presentation currency	(208,442)	287,728
Share of other comprehensive (expense) income of associates and joint ventures	(49,470)	59,659
Fair value loss on investments in equity instruments at fair value through other comprehensive income	(15,842)	–
Deferred tax effect on fair value loss on investments in equity instruments at fair value through other comprehensive income	1,513	–
Surplus on revaluation of properties upon transfer to investment properties	–	2,217
Deferred tax effect on surplus on revaluation of properties upon transfer to investment properties	–	7,354
	<u>(272,241)</u>	<u>356,958</u>
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operations	(34,295)	–
Net change in fair value of available-for-sale investments	–	(74,454)
Deferred tax effect on change in fair value of available-for-sale investments	–	2,612
Others	254	–
	<u>(34,041)</u>	<u>(71,842)</u>
Other comprehensive (expense) income for the period	<u>(306,282)</u>	<u>285,116</u>
Total comprehensive income for the period	<u>545,741</u>	<u>1,982,129</u>
Total comprehensive income attributable to:		
Owners of the Company	541,387	1,953,663
Non-controlling interests	4,354	28,466
	<u>545,741</u>	<u>1,982,129</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2018

	(Unaudited) 30th June, 2018 HK\$'000	(Audited) 31st December, 2017 HK\$'000
<i>Notes</i>		
Non-current Assets		
Property, plant and equipment	250,853	258,871
Investment properties	13,409,397	13,100,399
Properties for development	3,754,035	3,485,361
Deposits for acquisition of properties for development	232,063	236,196
Prepaid lease payments on land use rights	57,753	58,281
Other assets – properties interests	18,099	18,142
Interests in associates	2,988,205	2,939,345
Interests in joint ventures	3,489,927	2,950,262
Loans receivable	192,033	122,972
Available-for-sale investments	–	292,370
Financial assets at fair value through profit or loss	392,890	–
Equity instruments at fair value through other comprehensive income	235,092	–
Club memberships	10,500	–
Deferred tax assets	110,370	98,698
	25,141,217	23,560,897
Current Assets		
Inventories of properties		
– under development	1,494,515	1,762,245
– completed	2,705,679	3,557,462
Other inventories	1,620	1,952
Amounts due from associates	123,802	223,992
Amounts due from joint ventures	1,531,059	1,789,769
Amounts due from non-controlling interests	19,048	18,832
Loans receivable	1,204,006	664,471
Trade and other receivables, deposits and prepayments	(10) 454,357	441,271
Prepaid lease payments on land use rights	901	898
Held-for-trading investments	–	81,527
Equity securities at fair value through profit or loss	66,126	–
Prepaid tax	957	84,170
Pledged bank deposits	187,302	186,202
Bank balances and cash	3,556,411	4,782,753
	11,345,783	13,595,544

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*Continued*)

At 30th June, 2018

		(Unaudited) 30th June, 2018	(Audited) 31st December, 2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current Liabilities			
Trade and other payables	(11)	1,545,323	1,536,349
Contract liabilities		916,899	–
Pre-sale deposits		–	2,491,148
Tax liabilities		1,366,681	1,182,993
Interest-bearing borrowings		1,098,160	865,566
Interest-free borrowings		261,390	20,281
		<u>5,188,453</u>	<u>6,096,337</u>
Net Current Assets		<u>6,157,330</u>	<u>7,499,207</u>
		31,298,547	31,060,104
Capital and Reserves			
Share capital		3,788,814	3,788,814
Reserves		19,876,499	19,636,466
		<u>23,665,313</u>	<u>23,425,280</u>
Equity attributable to owners of the Company		23,665,313	23,425,280
Non-controlling interests		1,386,444	1,459,760
		<u>25,051,757</u>	<u>24,885,040</u>
Total Equity		<u>25,051,757</u>	<u>24,885,040</u>
Non-current Liabilities			
Interest-bearing borrowings		3,393,297	3,513,564
Deferred rental income from a tenant		29,967	33,845
Rental deposits from tenants		21,759	15,932
Deferred tax liabilities		2,801,767	2,611,723
		<u>6,246,790</u>	<u>6,175,064</u>
		31,298,547	31,060,104

Notes:

(1) Review by auditor

The interim financial report of the Group for the six months ended 30th June, 2018 has been reviewed by our auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and an unmodified review conclusion has been issued.

(2) Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The financial information relating to the year ended 31st December, 2017 that is included in these condensed consolidated financial statements does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31st December, 2017 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (“CO”). The Company’s auditor has reported on those financial statements for 2017. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the CO.

(3) Significant accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1st January, 2018 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The application of the above amendments to HKFRSs in the current period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements except for described below.

Impacts and changes in accounting policies of application on HKFRS 9 and HKFRS 15

The following table summarises the impacts of applying HKFRS 9 and HKFRS 15 on the Group's condensed consolidated statement of financial position as at 1st January, 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	Available- for-sale investments HK\$'000	Equity securities at fair value through profit or loss (previously classified as held-for-trading investments) HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Equity instruments at fair value through other comprehensive income HK\$'000	Club memberships HK\$'000	Pre-sale deposits HK\$'000	Contract liabilities HK\$'000	Revaluation reserves HK\$'000	Retained earnings HK\$'000
Closing balance at 31st December, 2017	292,370	81,527	-	-	-	2,491,148	-	61,387	17,534,360
Reclassification – HKFRS 9	(292,370)	-	12,566	269,304	10,500	-	-	(77,903)	77,903
Reclassification – HKFRS 15	-	-	-	-	-	(2,491,148)	2,491,148	-	-
Opening balance at 1st January, 2018	-	81,527	12,566	269,304	10,500	-	2,491,148	(16,516)	17,612,263

(4) Segment information

The Group's revenue for the period was derived mainly from activities carried out and located in the People's Republic of China ("PRC") and Hong Kong. The Group's basis of organisation is determined based on three main operations: property development, property investment and other operations that comprise mainly property management. Similarly, the Group's reportable and operating segments, reported to the Executive Directors of the Company for the purposes of resource allocation and performance assessment, also focused on the three main operations. For the property investment segment, it includes business activities of a listed property investment subsidiary. No reportable and operating segments of the listed property investment subsidiary are separately presented as its results, assets and liabilities are reviewed together with the Group's other property investment activities for the internal performance assessment purposes.

The following is an analysis of the Group's segment revenue, results, assets and liabilities by reportable and operating segments for the period under review:

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
For the six months ended 30th June, 2018				
SEGMENT REVENUE				
External sales	<u>2,013,354</u>	<u>255,210</u>	<u>87,121</u>	<u>2,355,685</u>
RESULTS				
Segment profit	751,398	385,649	4,551	1,141,598
Other income and gains				134,096
Unallocated corporate expenses				(93,940)
Finance costs				(82,049)
Share of (loss) profit of associates	(259)	46,641	–	46,382
Share of profit of joint ventures	54,044	95,160	11,325	<u>160,529</u>
Profit before tax				<u>1,306,616</u>
As at 30th June, 2018				
ASSETS				
Segment assets	8,529,422	13,597,442	49,530	22,176,394
Interests in associates	217,137	2,771,068	–	2,988,205
Interests in joint ventures	831,278	2,486,244	172,405	3,489,927
Amounts due from associates	2,563	121,239	–	123,802
Amounts due from joint ventures	1,461,219	–	69,840	1,531,059
Unallocated corporate assets				<u>6,177,613</u>
Consolidated total assets				<u>36,487,000</u>
LIABILITIES				
Segment liabilities	2,571,551	2,424,313	90,049	5,085,913
Unallocated corporate liabilities				<u>6,349,330</u>
Consolidated total liabilities				<u>11,435,243</u>

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
For the six months ended 30th June, 2017				
SEGMENT REVENUE				
External sales	<u>228,225</u>	<u>213,313</u>	<u>63,076</u>	<u>504,614</u>
RESULTS				
Segment profit (loss)	1,677,966	184,094	(3,388)	1,858,672
Other income and gains				68,402
Unallocated corporate expenses				(112,096)
Finance costs				(71,977)
Share of (loss) profit of associates	(764)	65,689	–	64,925
Share of profit (loss) of joint ventures	2,210	102,178	(1,537)	<u>102,851</u>
Profit before tax				<u>1,910,777</u>
As at 31st December, 2017				
ASSETS				
Segment assets	9,393,975	13,296,194	46,772	22,736,941
Interests in associates	214,943	2,724,402	–	2,939,345
Interests in joint ventures	568,604	2,219,029	162,629	2,950,262
Amounts due from associates	2,563	221,429	–	223,992
Amounts due from joint ventures	1,722,913	–	66,856	1,789,769
Unallocated corporate assets				<u>6,516,132</u>
Consolidated total assets				<u>37,156,441</u>
LIABILITIES				
Segment liabilities	3,848,018	2,308,773	22,078	6,178,869
Unallocated corporate liabilities				<u>6,092,532</u>
Consolidated total liabilities				<u>12,271,401</u>

(5) Other income and gains

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
Dividend income		
– unlisted shares	1,786	1,726
– listed shares	326	647
Interest income on bank deposits	27,163	17,320
Interest income from loans receivable	86,534	9,866
Interest income from a joint venture	4,801	12,864
Reversal of write-down of inventories of completed properties	–	591
Net exchange gain	2,087	8,310
Others	11,399	17,078
	<u>134,096</u>	<u>68,402</u>

(6) Gain on disposal of a subsidiary

During the six months ended 30th June, 2017, the Group disposed of its entire equity interests in a subsidiary and assigned part of the shareholders' loans to an independent third party. The disposed subsidiary is incorporated in the British Virgin Islands and holds 50% equity interest in a company established in the PRC which is engaged in property development in the PRC and its remaining 50% equity interest is also owned by another subsidiary of the Company. As a result, the subsidiary in the PRC became a joint venture ("JV Company") of the Group upon completion of this disposal.

Details of the disposals are as follows:

The net liabilities of the subsidiary at the date of disposal were as follows:

	2017
	HK\$'000
Net liabilities disposed of:	
Property, plant and equipment	245
Properties for development	914,558
Inventories of properties under development	971,778
Trade and other receivables, deposits and prepayments	7,208
Bank balances and cash	25,287
Trade and other payables	(763,674)
Pre-sale deposits	(13,056)
Shareholders' loans	(1,004,906)
Interest-bearing borrowings	(679,214)
	<u>(541,774)</u>
Net liabilities disposed	(541,774)
Assignment of shareholders' loans	677,743
Gain on disposal	1,633,977
Fair value of the remaining interests retained in the subsidiary classified to interests in joint ventures (Note a)	<u>(627,828)</u>
Proceeds of disposals	<u>1,142,118</u>

	2017 HK\$'000
– Cash consideration received in current period	419,487
– Cash consideration for assignment of shareholders' loans	677,743
– Cash consideration received in prior year as deposit	44,888
	<u>1,142,118</u>
Exchange translation reserve transferred to retained earnings (<i>Note b</i>)	<u>(23,176)</u>
Net cash inflow arising on disposal:	
Cash consideration received in current period	419,487
Cash consideration for assignment of shareholders' loans	677,743
Bank balances and cash disposed of	(25,287)
	<u>1,071,943</u>

Notes:

- (a) Included in the fair value of the remaining interests retained in the subsidiary classified to interests in joint ventures is the present value of an agreed distributable profit of HK\$547,169,000 to be received from the JV Company within three years from the date of completion of the disposal pursuant to a letter of confirmation dated 8th May, 2017.
- (b) Since the functional currencies of the disposed subsidiary and the Company are the same, exchange differences arising from translation of items to presentation currency accumulated in exchange translation reserve relating to the disposed subsidiary are transferred from exchange translation reserve to retained earnings at the time of disposal.

(7) Taxation

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
The charge comprises:		
Current tax		
– Hong Kong Profits Tax	1,600	1,501
– PRC Enterprise Income Tax	170,022	120,426
– Land Appreciation Tax	127,417	37,624
	<u>299,039</u>	<u>159,551</u>
Under (over) provision in prior years		
– PRC Enterprise Income Tax	450	(2,827)
	<u>299,489</u>	156,724
Deferred tax	155,104	57,040
	<u>454,593</u>	<u>213,764</u>

Hong Kong Profits Tax is calculated at the rate of 16.5% on the estimated assessable profit for the period. The PRC Enterprise Income Tax is calculated at the rates applicable to respective subsidiaries.

(8) Profit for the period

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	11,979	11,473
Less: amount capitalised on properties under development	(1,534)	(1,321)
	10,445	10,152
Amortisation of:		
Other assets – properties interests	259	247
Properties for development (<i>Note</i>)	14,014	21,285
Prepaid lease payments on land use rights	599	632
Total depreciation and amortisation	25,317	32,316
Cost of inventories recognised as expenses	1,197,004	117,453
Share of tax of associates included in share of profit of associates	9,257	12,949
Share of tax of joint ventures included in share of profit of joint ventures	180,784	172,899

Note: Amortisation of properties for development is recognised in profit or loss on a straight-line basis over the term of the relevant land leases, and is presented on the face of condensed consolidated statement of profit or loss.

(9) Earnings per share

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following:

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	836,929	1,671,086

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	'000	'000
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	1,506,769	1,506,769

No diluted earnings per share for both 2018 and 2017 were presented as there were no potential ordinary shares in issue for both 2018 and 2017.

(10) Trade and other receivables, deposits and prepayments

Proceeds receivable in respect of sales of properties are settled in accordance with the terms stipulated in the sale and purchase agreements.

Except for the proceeds from sales of properties and rental income from lease of properties which are payable in accordance with the terms of the relevant agreements, the Group generally allows a credit period of 30 days to 120 days to its customers.

The following is an aged analysis of trade receivables by date of debit note at the end of the reporting period:

	(Unaudited) As at 30th June, 2018 <i>HK\$'000</i>	(Audited) As at 31st December, 2017 <i>HK\$'000</i>
Within 3 months	9,161	27,703
Between 4 and 6 months	90	268
Between 7 and 12 months	79	89
Over 12 months	646	1,290
	9,976	29,350

As at 30th June, 2018, other receivables included the refundable deposits of HK\$150,643,000 (31st December, 2017: HK\$148,871,000) which were paid for acquisition of properties held for sales from third parties and the transaction has not yet completed at the end of the reporting period.

(11) Trade and other payables

The following is an aged analysis of trade payables by age, presented based on the invoice date, which are included in trade and other payables, at the end of the reporting period:

	(Unaudited) As at 30th June, 2018 <i>HK\$'000</i>	(Audited) As at 31st December, 2017 <i>HK\$'000</i>
Within 3 months	283,177	216,400
Between 4 and 6 months	29,098	32,935
Between 7 and 12 months	132,540	236,115
Over 12 months	401,414	404,163
	846,229	889,613

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The revenue of the Group for the six months ended 30th June, 2018 was HK\$2,355.7 million (2017: HK\$504.6 million), an increase over 3.7 times compared to the same period of last year. The profit attributable to owners of the Company amounted to HK\$836.9 million (2017: HK\$1,671.1 million), representing a decrease of 50% over the corresponding period of last year.

The main reason for the decrease in profit for the period was that there was gain on disposal of a subsidiary of approximately HK\$1,634.0 million for the six months ended 30th June, 2017, whereas there was no disposal of subsidiary for the six months ended 30th June, 2018.

Earnings per share amounted to HK55.54 cents (2017: HK110.91 cents), while the net asset value per share attributable to owners of the Company was HK\$15.71 at the end of June 2018 (31st December, 2017: HK\$15.55).

Business Review

The Group is engaged principally in the development of apartments, villas, office buildings and commercial properties, property investment and property management on the mainland in the PRC, as well as property investment and property management in Hong Kong.

An outline of our achievements in the first half of 2018 is described below:

- (1) Although there was no one-off gain from disposal of a subsidiary, the Group booked substantial sales and contributions from its ongoing development projects.
- (2) Total attributable registered sales (including sales from joint ventures and pre-sales of properties under construction) of the Group amounted to 61,600 m² in the first half of 2018 (2017: 128,100 m²), a decrease of 52%. A total attributable gross floor area (“GFA”) of approximately 97,800 m² (2017: Nil) was completed. For the first half of 2018, a total attributable GFA of approximately 1,111,000 m² (2017: 1,119,400 m²) was under construction at the period end, representing a 1% decrease over the corresponding date of last year.
- (3) Rental income was up by 20% as compared with 2017, due to the additional contribution from Beijing Park Apartments, Changchun Tian An City One, Nanjing Tian An Cyber Park and Nanjing Tian An International Building. The acquisition of South Place Hotel London during the first half of 2017 has also improved the rental income of the Group.
- (4) Cyberpark: There are a total of 15 cyberparks over 12 cities. The overall contribution of our cyberpark unit has increased. Those on the Pearl River Delta have been contributing most and we will concentrate on developing new cyberparks and urban renewal projects in this region where we have ample manpower and marketing resources.
- (5) Phase 2 of Tian An’s urban renewal project, Tian An Cloud Park, in Huawei New City Area in the Longgang District of Shenzhen, with GFA of approximately 599,400 m² is under construction and part of the Phase 2 is expected to be completed in the second half of 2018 and the remaining part is expected to be completed in the first half of 2019.

- (6) For the six months ended 30th June, 2018, Asiasec Properties Limited reported a profit of HK\$78.2 million (2017: HK\$115.5 million) attributable to its shareholders.

Financial Review

Liquidity and Financing

The Group always maintains its liquidity at a healthy level with a balanced portfolio of financial resources. As at 30th June, 2018, the total bank balances and cash reserves of the Group were approximately HK\$3,743.7 million (31st December, 2017: HK\$4,969.0 million), providing sufficient working capital for the daily operations of the Group.

As at 30th June, 2018, the total borrowings of the Group amounted to approximately HK\$4,752.8 million (31st December, 2017: HK\$4,399.4 million), including current liabilities of HK\$1,359.5 million (31st December, 2017: HK\$885.8 million) and non-current liabilities of HK\$3,393.3 million (31st December, 2017: HK\$3,513.6 million). The gearing ratio (net debt over total equity) of the Group was 4% (31st December, 2017: negative of 2%). The borrowings were mainly used to finance the properties for development and properties under construction. Increase in finance costs is mainly due to the increase in borrowings compared to the same period of last year.

Approximately 49% of the Group's outstanding borrowings will mature within 2 years. Since most of the investments and operations of the Group are carried out in the PRC, most of the bank borrowings are denominated in Renminbi which will be repaid in the same currency. Around 82% of the Group's borrowings bear interest at fixed rates while the remainders are at floating rates.

Due to maintaining flexible and sufficient cash flow for acquiring the potential quality landbank and accelerating construction works for our development projects, the Group intends to obtain suitable bank borrowings with reasonable pricing terms. The management continuously monitors its gearing ratio and raises new external borrowings when necessary.

Risk of Foreign Exchange Fluctuation

The Group is required to maintain foreign currency exposure to cater for its recurring operating activities and present and potential investment activities, meaning it will be subject to reasonable exchange rate exposure. However, the Group will closely monitor this risk exposure as required.

Pledge on Assets

As at 30th June, 2018, bank deposits of HK\$187.3 million, aggregate carrying values of property, plant and equipment, development properties and investment properties of approximately HK\$138.7 million, HK\$5,312.6 million and HK\$9,446.9 million respectively, were pledged for banking facilities granted to the Group, mortgage loans granted to property purchasers and guarantees in respect of utility supplies and government authorities for the development works.

Contingent Liabilities

Two pieces of properties for development that are held by joint ventures of the Group with carrying value of approximately HK\$88.5 million are under idle land investigation by the local authorities. These pieces of lands owned by the joint ventures were held under several land use right certificates. The development of more than half of the pieces of lands were either completed or under development, except for the portions which are retained for the remaining development of the whole projects. Another property for development that is held by a subsidiary of the Group with carrying value of approximately HK\$35.3 million is also under idle land investigation by the local authority. This piece of land owned by the subsidiary has been developed by several phases and more than half was completed, except the last portion which is under the planning approval by the local authority. Further, property for development that is held by another joint venture of the Group with carrying value of approximately HK\$761.4 million had been identified as idle land by the local authority. The construction works for the first phase of development is continuing during the interim period. The Group is currently working diligently to prevent the possible classification as idle land for those under idle land investigation and taking remedy action to prevent from prosecution for those had been identified as idle land, including negotiating the feasibility of development plans with local authorities. Based on legal advices, the Group has assessed the issue and considers that the idle land confiscation can be reversed. In the opinion of the directors of the Company, the economic outflows caused by the above cases are not probable.

As at 30th June, 2018, guarantees given to banks in respect of mortgage loans granted to property purchasers and bank facilities granted to or utilised by the joint ventures as well as guarantees granted in respect of utility supplies and government authorities for the property development works amounted to approximately HK\$1,609.2 million. All the guarantees provided by the Group were requested by banks and under normal commercial terms. No legal action was taken against the Group for material claim.

Employees

As at 30th June, 2018, the Group including its subsidiaries but excluding associates and joint ventures, employed 2,008 (31st December, 2017: 1,980) persons. The Group maintains a policy of paying competitive remuneration packages and employees are also rewarded on performance related basis including salary and bonus.

Business Outlook

The Group's main business market is mainland China, where there have been various measures by the authorities to regulate the high housing demand and cool down the overheated property market. In Hong Kong, there is a shortage in the supply of land resulting in record land prices. We expect that global market interest rates will go up continuously and the trade war between China and the United States of America may not abate in the second half of 2018. These two factors may have an adverse impact on the property market. However, we remain confident of the long term prospects of the property market in mainland China and Hong Kong.

INTERIM DIVIDEND

The Board considers that it is prudent to retain an appropriate level of funds to take advantage of business opportunities as and when they arise, and therefore does not intend to declare an interim dividend for the six months ended 30th June, 2018 (2017: Nil).

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the six months ended 30th June, 2018, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (“CG Code”) as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarised below:

Code Provisions B.1.2 and C.3.3

Code provisions B.1.2 and C.3.3 of the CG Code stipulate that the terms of reference of the remuneration committee and audit committee should include, as a minimum, those specific duties as set out in the respective code provisions.

The terms of reference of the remuneration committee (“Remuneration Committee”) adopted by the Company are in compliance with the code provision B.1.2 of the CG Code except that the Remuneration Committee shall make recommendations to the Board on the remuneration packages of the Executive Directors only and not senior management (as opposed to executive directors and senior management under the code provision).

The terms of reference of the audit committee (“Audit Committee”) adopted by the Company are in compliance with the code provision C.3.3 of the CG Code except that the Audit Committee (i) shall recommend (as opposed to implement under the code provision) the policy on the engagement of the external auditors to supply non-audit services; (ii) only possesses the effective ability to scrutinise (as opposed to ensure under the code provision) whether management has performed its duty to have effective risk management and internal control systems; and (iii) can promote (as opposed to ensure under the code provision) the co-ordination between the internal and external auditors, and check (as opposed to ensure under the code provision) whether the internal audit function is adequately resourced.

The reasons for the above deviations were set out in the Corporate Governance Report contained in the Company’s Annual Report for the financial year ended 31st December, 2017. The Board considers that the Remuneration Committee and the Audit Committee should continue to operate according to the relevant terms of reference as adopted by the Company. The Board will review the terms at least annually and make appropriate changes if considered necessary.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30th June, 2018. In carrying out this review, the Audit Committee has relied on a review conducted by the Group’s external auditor in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by HKICPA as well as reports obtained from management. The Audit Committee has not undertaken detailed independent audit checks.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30th June, 2018.

On behalf of the Board
Tian An China Investments Company Limited
Edwin Lo King Yau
Executive Director

Hong Kong, 17th August, 2018

As at the date of this announcement, the Board comprises Mr. Song Zengbin (Deputy Chairman), Mr. Patrick Lee Seng Wei (Managing Director), Mr. Ma Sun (Deputy Managing Director), Mr. Edwin Lo King Yau and Mr. Tao Tsan Sang being the Executive Directors; Mr. Lee Seng Hui (Chairman) and Dr. Moses Cheng Mo Chi being the Non-Executive Directors; and Mr. Francis J. Chang Chu Fai, Mr. Jin Hui Zhi, Mr. Ngai Wah Sang and Ms. Lisa Yang Lai Sum being the Independent Non-Executive Directors.